

TOWNSHIP OF SAGOLA

Financial Report
With Supplemental Information
Prepared in Accordance with GASB 34

MARCH 31, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name TOWNSHIP OF SAGOLA	County IRON
Audit Date 3/31/05	Opinion Date 6/22/05	Date Accountant Report Submitted to State: 9/27/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

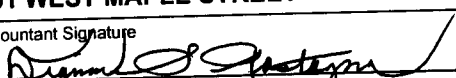
Certified Public Accountant (Firm Name) DS ROSTAGNO, CPA, P.C.			
Street Address 101 WEST MAPLE STREET	City IRON RIVER	State MI	ZIP 49935
Accountant Signature 		Date 9/27/05	

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	4
MANAGEMENT'S DISCUSSION AND ANALYSIS	7
BASIC FINANCIAL STATEMENTS.....	22
STATEMENT OF NET ASSETS.....	23
STATEMENT OF ACTIVITIES.....	25
BALANCE SHEET - GOVERNMENTAL FUNDS	27
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS	29
GOVERNMENTAL FUNDS - STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES	30
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	32
STATEMENT OF FUND NET ASSETS	33
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - ENTERPRISE FUND	34
STATEMENT OF CASH FLOWS - ENTERPRISE FUND	35
STATEMENT OF FIDUCIARY NET ASSETS	37
NOTES TO THE FINANCIAL STATEMENTS	38
REQUIRED SUPPLEMENTAL INFORMATION	95
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND	96
BUDGETARY COMPARISON SCHEDULE - FIRE FUND	97
BUDGETARY COMPARISON SCHEDULE - ROAD FUND.....	98
OTHER SUPPLEMENTAL INFORMATION.....	99
BALANCE SHEET	100
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE- NON-MAJOR GOVERNMENTAL FUNDS	101
COMBINING BALANCESHEET - ALL SPECIAL REVENUE FUNDS	102
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY -ALL SPECIAL REVENUE FUNDS	103
BALANCE SHEET - GENERAL FUND	104
STATEMENT OF REVENUES - GENERAL FUND	105
STATEMENT OF EXPENDITURES - GENERAL FUND	106
BALANCE SHEET - LIQUOR LAW ENFORCEMENT FUND	109
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY - LIQUOR LAW ENFORCEMENT FUND	110
BALANCE SHEET - FIRE FUND	111
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY - FIRE FUND	112
BALANCE SHEET - RECREATION FUND	113
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY - RECREATION FUND	114
BALANCE SHEET - ROAD REPAIR FUND	115

TABLE OF CONTENTS
(Continued)

	<u>Page</u>
OTHER SUPPLEMENTAL INFORMATION (Continued)	
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY - ROAD REPAIR FUND	116
BALANCE SHEET - SEWER FUND	117
BALANCE SHEET - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN RETAINED EARNINGS -SEWER FUND	118
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - TRUST AND AGENCY FUNDS.....	119
 INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING	
.....	120

INDEPENDENT AUDITOR'S REPORT

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

Board of Trustees
Township of Sagola
Channing, Michigan 49815

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the **Township of Sagola**, as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Trustees, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Township of Sagola** at March 31, 2005, and the respective changes in financial position and cash flows thereof for the year ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2005 on our consideration of the **Township of Sagola's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the report in considering the results of our audit.

The management's discussion and analysis on pages 8 through 21 and the budgetary comparison information are not required parts of the basic financial statements but are supplemental information required by the *Governmental Accounting Standards Board* and by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of the inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Township of Sagola's** basic financial statements. The combining and individual fund financial statements are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

June 22, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

SAGOLA TOWNSHIP
BOX 195
CHANNING, MI 49815

The management of the **Township of Sagola** provides this narrative overview and analysis of the financial activities of the **Township of Sagola** for the fiscal year ended March 31, 2005. As readers, you are encouraged to read this discussion and analysis in conjunction with the Township's financial statement information included in this report.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The financial section of this report includes management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township that are mainly supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the Township include general government, public safety, road repair, sanitation, culture and recreation. The business-type activity of the Township is the Sewer Utility service.

SAGOLA TOWNSHIP
BOX 195
CHANNING, MI 49815

Fund Financial Statements

The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. In the basic financial statements, the emphasis of the fund financial statements is on major funds. All of the funds of the Township can be divided into three categories: **governmental funds, proprietary funds, and fiduciary funds.**

Governmental Funds

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating the Township's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. In order to provide the reader with information to better understand the long-term impact of the government's near-term financing decisions, a reconciliation between the government-wide financial statements is included as part of the basic financial statements.

The Township maintains five governmental funds. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance for the general, fire, and road repair funds, all of which are considered major funds. The Liquor Law Enforcement Fund and the Recreation Fund are both non-major governmental funds. Individual fund data for each fund is presented separately in the "Other Supplementary Information" section of this report.

The Township adopts an annual budget for its general and other governmental funds. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general and other major governmental funds, and is included in the "Required Supplementary Information" section of this document.

SAGOLA TOWNSHIP
BOX 195
CHANNING, MI 49815

Proprietary Funds

Proprietary Funds provide services for which the Township charges customers a fee. The Township has only one type of proprietary fund - an enterprise fund. The enterprise fund of the Township is used to report the same functions as the business-type activities in the government-wide financial statements. The Sewer Utility Fund is presented separately in both the government-wide financial statements and the fund financial statements and is considered a major fund. Enterprise funds are used to account for operations very similar to business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The fiduciary fund for the Township is the Tax Collection Fund. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. This fund is presented separately in the fund financial statements section of the basic financial statements.

Notes to the Financial Statements

Notes to the financial statements are included in the basic financial statements, and provide additional information that is essential for a full understanding of the data provided in the government-wide and the fund financial statements.

Supplementary Information

Required supplementary information follows the basic financial statements, and includes budgetary comparison schedules for the General Fund and the Township's major special revenue funds as presented in the governmental fund financial statements.

A separate financial statement for the Township's non-major governmental funds is also included in the Other Supplementary Information section of this document.

SAGOLA TOWNSHIP
BOX 195
CHANNING, MI 49815

Government-wide Financial Analysis

In time, net assets of a governmental entity may serve as a useful indicator of the government's financial position. In the case of the Township, assets exceeded liabilities by \$ 2,004,622 at March 31.

By far, the largest portion of the Township's net assets is its investment in capital assets (land, buildings, machinery, and equipment), less any outstanding debt related to acquiring the asset. These capital assets are used to provide services to citizens and are not available for future spending. Although the Township's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At March 31, 2005 the Township reported \$ 1,377,555 in net assets invested in capital assets net of related debt.

External restrictions of the Township's net assets represent resources subject to existing external obligations or programmatic control on future use. The remaining balance of unrestricted net assets of \$ 496,124 may be used to meet the Township's ongoing obligations to citizens and creditors.

Total net assets in excess of liabilities at March 31 for the governmental activities and business-type activities were \$ 954,548 and \$ 1,050,074, respectively.

Summary of Net Assets

The following summarizes the net assets at fiscal year ended March 31, 2005.

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
<u>Assets</u>			
Current and other assets	\$ 556243	\$ 86860	\$ 643103
Capital assets, net	<u>404532</u>	<u>973023</u>	<u>1377555</u>
Total Assets	\$ 960775	\$ 1059883	\$ 2020658

SAGOLA TOWNSHIP
BOX 195
CHANNING, MI 49815

Government-wide Financial Analysis (Continued)

Summary of Net Assets (Continued)

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
<u>Liabilities</u>			
Long-term liabilities	\$ 0	\$ 0	\$ 0
Other liabilities	<u>6227</u>	<u>9809</u>	<u>16036</u>
Total Liabilities	6227	9809	16036
<u>Net Assets</u>			
Invested in capital assets, net of related debt	404532	973023	1377555
Reserved	53892	77051	130943
Unreserved and undesignated	<u>496124</u>	<u>0</u>	<u>496124</u>
Total Net Assets	\$ 954548	\$ 1050074	\$ 2004622

Following is a summary of net assets at fiscal year ended March 31, 2004:

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
<u>Assets</u>			
Current and other assets	\$ 726465	\$ 127616	\$ 854081
Capital assets, net	<u>199952</u>	<u>1006701</u>	<u>1206653</u>
Total Assets	\$ 926417	\$ 1134317	\$ 2060734

SAGOLA TOWNSHIP
BOX 195
CHANNING, MI 49815

Government-wide Financial Analysis (Continued)

Summary of Net Assets (Continued)

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
<u>Liabilities</u>	<u>Activities</u>	<u>Activities</u>	
Long-term liabilities	\$ 0	\$ 50000	\$ 50000
Other liabilities	<u>44376</u>	<u>8295</u>	<u>52671</u>
Total Liabilities	44376	58295	102671
 <u>Net Assets</u>			
Invested in capital assets, net of related debt	199952	951701	1151653
Reserved	248306	124321	372627
Unreserved and undesignated	<u>433783</u>	<u>0</u>	<u>433783</u>
Total Net Assets	\$ 882041	\$ 1076022	\$ 1958063

For governmental activities, net assets decreased by \$ 33,594 during the fiscal year ended March 31, 2005.

For business-type activities, net assets decreased by
\$ 28,268 during the same period.

RESULTS OF OPERATIONS

Results of operations for fiscal year ended March 31, 2005 are as follows:

SAGOLA TOWNSHIP
BOX 195
CHANNING, MI 49815

Government-wide Financial Analysis (Continued)

RESULTS OF OPERATIONS (Continued)

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
<u>REVENUES</u>			
<u>Program Revenues</u>			
Charges for Services	\$ 31457	\$ 41357	\$ 72814
<u>General Revenues</u>			
Property taxes	55871		55871
Other taxes	122573		122573
Unrestricted grants	79357		79357
Operating grants/contributions	6716		6716
Other	<u>11142</u>	<u>917</u>	<u>12059</u>
Total Revenues	307116	42274	349390
<u>EXPENSES</u>			
General government	\$ 54545	\$	\$ 54545
Legislative	37295		37295
Township property	43737		43737
Public safety	18905		18905
Public works	96883		96883
Cemetery	5690		5690
Sanitation and health	35198		35198
Culture and recreation	25736		25736
Depreciation	<u>22721</u>		<u>22721</u>
Total governmental expenses	340710	-0-	340710
<u>Business-type activities:</u>			
Sewer		<u>70542</u>	<u>70542</u>
Total business-type expenses	-0-	70542	70542
TOTAL EXPENSES	\$ 340710	\$ 70542	\$ 411252

SAGOLA TOWNSHIP
BOX 195
CHANNING, MI 49815

Government-wide Financial Analysis (Continued)

RESULTS OF OPERATIONS (Continued)

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
<u>EXPENSES</u> (Continued)			
Increase (Decrease) in net assets before transfers	\$ (33594)	\$ (28268)	\$ (61862)
Transfers - net	-0-	-0-	-0-
Increase (Decrease) in Net Assets	(33594)	(28268)	(61862)
Net Assets, beginning of year	882041	1078342	1960383
Cumulative change in application of accounting principle	106101	-0-	106101
Net Assets, end of year	\$ <u>954548</u>	\$ <u>1050074</u>	\$ <u>2004622</u>

Operating results for the fiscal year ended March 31, 2004 are as follows:

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
<u>REVENUES</u>			
<u>Program Revenues</u>			
Charges for Services	\$ 27677	\$ 39246	\$ 66923
<u>General Revenues</u>			
Property taxes	96804		96804
Other taxes	75477		75477
Unrestricted grants	83952		83952
Other	<u>16988</u>	<u>1310</u>	<u>18298</u>
Total Revenues	\$ 300898	\$ 40556	\$ 341454

SAGOLA TOWNSHIP
BOX 195
CHANNING, MI 49815

Government-wide Financial Analysis (Continued)

RESULTS OF OPERATIONS (Continued)

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
<u>EXPENSES</u>	<u>Activities</u>	<u>Activities</u>	
General government	\$ 53883	\$	\$ 53883
Legislative	25762		25762
Township property	50079		50079
Public safety	21468		21468
Public works	63817		63817
Cemetery	5447		5447
Sanitation and health	36226		36226
Culture and recreation	24601		24601
Depreciation	<u>14646</u>		<u>14646</u>
Total governmental expenses	295929	-0-	295929
<u>Business-type activities:</u>			
Sewer		<u>64080</u>	<u>64080</u>
Total business-type expenses	-0-	64080	64080
TOTAL EXPENSES	\$ 295929	\$ 64080	\$ 360009
 Increase (Decrease) in net assets before transfers	 4969	 (23524)	 (18555)
Transfers - net	-0-	-0-	-0-
 Increase (Decrease) in Net Assets	 4969	 (23524)	 (18555)
Net Assets, beginning of year	<u>877072</u>	<u>1099546</u>	<u>1976618</u>
Net Assets, end of year	\$ <u>882041</u>	\$ <u>1076022</u>	\$ <u>1958063</u>

SAGOLA TOWNSHIP
BOX 195
CHANNING, MI 49815

Governmental Activities

Property taxes and other tax revenues comprise \$ 178,444 or approximately 58 percent of total governmental revenues for fiscal ended March 31, 2005.

The Township also collected \$ 20,690 for garbage collection services. And, at fiscal year ended March 31, 2005, the Township reported \$ 79,357 in grants and contributions not restricted for specific programs. This amount was due entirely to the State of Michigan's state sales tax distribution.

The Township expended \$ 340,710 on governmental programs and services during the 2004-05 fiscal year. Some of the largest expense categories were for public works, where \$ 96,883, or 28 percent of total governmental expenditures were used for road repair, \$ 54,545, or 16 percent of the total were used for general government, and \$ 43,737, or 14 percent of total governmental expenditures were used to maintain Township property.

Business-type Activities

Business-type activities decreased the Township's net assets during 2004-05 by \$ 28,268. Charges for services for the sewer activities for the year ended were \$ 41,357. Total expenses for the sewer activities for the year ended were \$ 70,542.

Financial Analysis of the Governmental Funds

As previously noted, the Township uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds

The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

SAGOLA TOWNSHIP
BOX 195
CHANNING, MI 49815

Governmental Funds (Continued)

The Township's governmental funds reported combined ending fund balances of \$ 500,016, of which \$ 53,892 is reserved and the remaining \$ 496,124 is available for spending at the government's discretion.

The Township's primary governmental fund is its general fund. There are no reservations in the general fund's fund balance.

On the budgetary basis of accounting, the Township ended the fiscal year with revenues greater than the final projection. Total expenditures were considerably less than the final projection. At fiscal year-end, the fund balance was higher than either the original or the final amended budget projections.

Expenditures – Budget vs Actual for the Fiscal Year Ended March 31, 2005:

	<u>Expenditures Original Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Actual</u>	<u>Expenditures Variance Actual and Original Budget</u>	<u>Expenditures Variance Actual and Final Budget</u>
General Fund	\$ 301116	\$ 284866	\$ 176465	\$ 124651	\$ 51814
Fire Fund	53360	242085	234441	(181081)	7644
Road Fund	100000	100000	96883	3117	3117

Revenues – Budget vs Actual for the Fiscal Year Ended March 31, 2005:

	<u>Revenues Original Budget</u>	<u>Revenues Final Budget</u>	<u>Revenues Final Actual</u>	<u>Revenues Actual Variance and Original Budget</u>	<u>Revenues Variance Actual and Final Budget</u>
General Fund	\$ 192960	\$ 193608	\$ 233366	\$ 40406	\$ 39758
Fire Fund	35054	35054	43701	8647	8647
Road Fund	700	4755	4438	3738	(317)

SAGOLA TOWNSHIP
BOX 195
CHANNING, MI 49815

Governmental Funds (Continued)

General fund financial and budgetary highlights of the fiscal year include:

- * Property taxes, administration fees, and other taxes exceeded budgetary projections by \$ 18,972.
- * State sales tax distributions were up from the final amended budget, coming in at \$ 79,357, which exceeds by \$ 9,357 the budgeted estimates of \$ 70,000.
- * Fees for garbage collection were \$ 20,690, exceeding by \$ 5,690 the final amended budget of \$ 15,000.
- * Expenditures in total for the general fund were \$ 176,465, less than the final amended budget by \$ 108,401. This was largely due to the fact that expenditures for legislative activities and Township Hall expenditures were considerably less than the amounts appropriated for these purposes.

Special revenue funds financial and budgetary highlights of the fiscal year include:

- * In the Fire Fund, general property taxes were slightly higher than anticipated, while spending for public safety and capital outlay was slightly less than budgeted.
- * Road repair costs incurred during the year were slightly less than the amount budgeted. This surplus will be available for future use.

Proprietary Funds

The Township's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Sewer Fund at year-end were \$ 77,051. The change in net assets was a loss of \$ 28,268. Other factors concerning the finances of these funds have already been addressed in the discussion of the Township's business-type activities.

SAGOLA TOWNSHIP
BOX 195
CHANNING, MI 49815

Capital Assets and Debt Administration

Capital Assets

The Township's investment in capital assets, net of accumulated depreciation, for its governmental and business-type activities as of March 31 was \$ 1,377,555. The investment in capital assets includes land, buildings, improvements, infrastructure, machinery and equipment, and licensed vehicles.

Infrastructure assets represent \$ 1,737,508 or approximately 67 percent of the estimated original cost of total assets. All infrastructure is accounted for in the Sewer Fund. There is no infrastructure attributed to the General Fund.

Major capital events during the current fiscal year included:

- * Purchase of a fire truck at the cost of \$ 215,152 and fire equipment at a cost of \$ 1,475.
- * Purchase of playground equipment and a tennis net at a combined cost of \$ 10,673.
- * Sewer pump/equipment for \$ 10,885.

Long-term debt

As of March 31, the Township (including the enterprise funds) had no debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. Since the Township has no bonded debt, this is not a concern to the Township.

Other Economic Factors and Next Year's Budget

Economic Factors

Currently, the State of Michigan is experiencing a severe budgetary crisis. As such, it is anticipated that future state budget cuts will likely translate into strategic reductions of Township expenses to maintain a fiscally sound budget.

Despite the poor outlook of the State's budget, the Township will continue to strive to provide good social and cultural conditions that support healthy families, and maintain a safe and clean community in which to live.

SAGOLA TOWNSHIP
BOX 195
CHANNING, MI 49815

Other Economic Factors and Next Year's Budget (Continued)

Economic Factors (Continued)

The Township's fiscal year 2005-2006 general fund budget is \$ 340,862, representing a slight increase from the previous fiscal year.

There are no significant plans or major priorities for the Township for the 2005-2006 fiscal year, nor are there any significant tax rate or fee changes being implemented.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the Township's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Township Supervisor
Sagola Township
Channing, Michigan 49815

BASIC FINANCIAL STATEMENTS

TOWNSHIP OF SAGOLA

STATEMENT OF NET ASSETS

MARCH 31, 2005

	Primary Government		Totals
	Governmental	Business-type	Reporting Entity
	Activities	Activities	
<u>ASSETS</u>			
<u>Current Assets</u>			
Cash and Cash Equivalents (Note C)	\$ 238555	\$ 9064	\$ 247619
Receivables			8030
Taxes	8030		8115
Accounts Receivable	1050	7065	0
Due from Other Governmental Units	0		112460
Due from External Parties	112460		0
Internal Balances	-4741	4741	418
Inventories	418		0
Prepaid Expenses	0		
Total Current Assets	355772	20870	376642
<u>Noncurrent Assets</u>			
Restricted Cash	200471	65990	266461
Capital Assets, Net (Note H)	404532	973023	1377555
Total Noncurrent Assets	605003	1039013	1644016
TOTAL ASSETS	\$ 960775	\$ 1059883	\$ 2020658
<u>LIABILITIES</u>			
<u>Current Liabilities</u>			
Accounts Payable	6227	6044	12271
Accrued Salaries and Benefits	0		0
Deferred Revenue	0	3765	3765
Bonds/Notes Payable, Current Portion	0		0
Compensated Absences, Current Portion	0		0
Total Current Liabilities	6227	9809	16036
<u>Noncurrent Liabilities</u>			
Bonds/Notes Payable (Note I)	0	0	0
Compensated Absences Payable	0	0	0
Long-Term Employee Benefits Payable	0	0	0
Total Noncurrent Liabilities	0	0	0
TOTAL LIABILITIES	\$ 6227	\$ 9809	\$ 16036

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

**STATEMENT OF NET ASSETS
(CONTINUED)**

MARCH 31, 2005

	Primary Government		Totals
	Governmental Activities	Business-type Activities	Reporting Entity
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	\$ 404532	\$ 973023	\$ 1377555
Reserved for Fire Protection	31700		31700
Reserved for Recreation	2309		2309
Reserved for Road Repair	12188		12188
Reserved for Liquor Law Enforcement	7695		7695
Reserved for Sewer Repairs/Improvements		\$ 77051	77051
Unreserved, Undesignated	\$ 496124		496124
			0
TOTAL NET ASSETS	\$ 954548	\$ 1050074	\$ 2004622

The notes to the financial statements are integral part of this report.

TOWNSHIP OF SAGOLA

STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2005

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	<u>Capital Grants</u>
Primary Government -				
General government	\$ 54545	\$ 21874	\$ 0	\$ 0
Legislative	37295			
Township property	43737	200		
Public safety	18905	200	2661	
Public works	96883		4055	
Cemetery	5690	2925		
Sanitation and health	35198	6258		
Culture and recreation	25736			
Depreciation (Unallocated)	22721			
Total Governmental Activities	\$ 340710	\$ 31457	\$ 6716	\$ 0

Business-type Activities

Sewer Utility	70542	41357
Total Business-type Activities	70542	41357

General Revenues:

Taxes:

 Property taxes levied for general operations
 Other taxes and fees
State Sales Tax Distribution
Sale of Property
Interest and Investment Earnings
Other

Total General Revenues

Change in Net Assets

Net Assets - Beginning of year

Cumulative Effect of Change in Application of Accounting Principle

Net Assets - End of year

TOWNSHIP OF SAGOLA

STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2005

**Net (Expense) Revenue and Changes
in Net Assets**

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (32671)		\$ (32671)
(37295)		(37295)
(43537)		(43537)
(16044)		(16044)
(92828)		(92828)
(2765)		(2765)
(28940)		(28940)
(25736)		(25736)
(22721)		(22721)
<u>(302537)</u>		<u>(302537)</u>
	(29185)	(29185)
	<u>(29185)</u>	<u>(29185)</u>
55871		55871
122573		122573
79357		79357
0		0
9573	917	10490
1569		1569
<u>268943</u>	<u>917</u>	<u>269860</u>
(33594)	(28268)	(61862)
882041	1078342	1960383
106101	0	106101
<u>\$ 954548</u>	<u>\$ 1050074</u>	<u>\$ 2004622</u>

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

**BALANCE SHEET
GOVERNMENTAL FUNDS**

MARCH 31, 2005

	<u>General Fund</u>	<u>Fire Fund</u>	<u>Road Fund</u>
<u>ASSETS</u>			
Cash and Investments (Note C)			
Unrestricted	\$ 210565	\$ 5752	\$ 12188
Restricted	200471		
Receivables:			
Taxes	4606	3424	
Accounts Receivable	1050		
Due from Other Funds	128216	37735	
Inventories	418		
TOTAL ASSETS	<u>\$ 545326</u>	<u>\$ 46911</u>	<u>\$ 12188</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable	6227		
Due to Other Funds	42975	15211	
TOTAL LIABILITIES	49202	15211	0
<u>FUND BALANCES</u>			
Reserved for Fire Protection		31700	
Reserved for Recreation			12188
Reserved for Road Repair			
Reserved for Liquor Law Enforcement			
Unreserved and undesignated	496124		
TOTAL FUND BALANCES	496124	31700	12188
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 545326</u>	<u>\$ 46911</u>	<u>\$ 12188</u>

TOWNSHIP OF SAGOLA

BALANCE SHEET
GOVERNMENTAL FUNDS

MARCH 31, 2005

Nonmajor Governmental Funds	Total Governmental Funds
\$ 10050	\$ 238555
	200471
	0
	8030
	1050
	165951
	418
<u>\$ 10050</u>	<u>\$ 614475</u>
	6227
<u>46</u>	<u>58232</u>
46	64459
	31700
2309	2309
	12188
7695	7695
	<u>496124</u>
<u>10004</u>	<u>550016</u>
<u>\$ 10050</u>	<u>\$ 614475</u>

The notes to the financial statements are an integral part of this return.

TOWNSHIP OF SAGOLA

GOVERNMENTAL FUNDS

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS

MARCH 31, 2005

Fund Balances - Total Governmental Funds

\$ 550016

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.

The cost of capital assets is:

854078

Accumulated depreciation is:

(449546)

Long term liabilities are not due and payable in the current period and are not reported in the funds:

Bonds Payable

0

Compensated Absences

0

Other long term assets not available to pay current period expenditures therefore deferred in the funds

0

Accrued interest is not included as a liability in governmental funds

0

Total Net Assets - Governmental Activities

\$ 954548

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
MARCH 31, 2005**

	<u>General Fund</u>	<u>Fire Fund</u>	<u>Road Fund</u>
<u>Revenue</u>			
General Property taxes	\$ 55871	\$ 42364	\$ 0
Other local taxes	39296		
Fees/penalties/interest on taxes	17213		
Licenses, permits, and fines			
Sale of property			
Use of money and property	10253	337	383
Charges for services	26948	200	
Miscellaneous	1503	50	
Cemetery	2925		
Intergovernmental	79357	750	4055
Total Revenue	\$ 233366	\$ 43701	\$ 4438
<u>Expenditures</u>			
Current Operating:			
General government	54545		
Legislative	37295		
Township property	43737		
Public safety		17814	
Public works			96883
Cemetery	5690		
Sanitation and health	35198		
Culture and recreation			
Community development			
Capital Outlay		216627	
Intergovernmental Payments			
Total Expenditures	176465	234441	96883
Excess (Deficiency) of Revenues Over Expenditures	56901	(190740)	(92445)
<u>Other Financing Sources (Uses)</u>			
Operating transfers in		0	50000
Operating transfers (out)	(62300)		
Total Other Financing Sources(Uses)	(62300)	0	50000
Net Change in Fund Balances	(5399)	(190740)	(42445)
Fund Balances - Beginning of Year	501523	222440	54633
Fund Balances - End of Year	\$ 496124	\$ 31700	\$ 12188

TOWNSHIP OF SAGOLA

GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
MARCH 31, 2005

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 23700	\$ 121935
	39296
	17213
	0
	0
	10973
	27148
	1553
	2925
<u>1911</u>	<u>86073</u>
\$ 25611	\$ 307116
	54545
	37295
	43737
1091	18905
	96883
	5690
	35198
25736	25736
	0
10673	227300
<u> </u>	<u>0</u>
37500	545289
(11889)	(238173)
12300	62300
<u> </u>	<u>(62300)</u>
12300	0
411	(238173)
<u>9593</u>	<u>788189</u>
<u>\$ 10004</u>	<u>\$ 550016</u>

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED MARCH 31, 2005

Net Change in Fund Balances - Total Governmental Funds

\$ (238173)

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures; in
the statement of activities, these costs are allocated over their
estimated useful lives as depreciation.

Depreciation Expense

(22721)

Capital Outlay

227300

Total

204579

Revenue reported in the statement of activities that does not provide
current financial resources and are not reported as revenue
in the governmental funds

0

Accrued interest is recorded in the statement of activities when
incurred; it is not reported in governmental funds until paid

0

Repayment of bond principal is an expenditure in the governmental
funds, but not in the statement of activities (where it reduces
long term debt)

0

Increases Decreases in compensated absences are reported as
expenditures when financial resources are used in the governmental
funds in accordance with GASB Interpretation No. 6

0

Eliminate interfund transfers to non-governmental funds

0

Change in Net Assets of Governmental Activities

\$ (33594)

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

STATEMENT OF FUND NET ASSETS
ENTERPRISE FUNDS

MARCH 31, 2005

<u>ASSETS</u>	Sewer Fund
<i>Current Assets</i>	
Cash, unrestricted	\$ 9064
Accounts Receivable, net	7065
Internal Balances	5240
	<hr/>
Total Current Assets	\$ 21369
 <i>Noncurrent Assets</i>	
Restricted cash	65990
 Capital assets:	
Equipment	13321
Infrastructure	1737508
Less:	
Allowance for depreciation	(777806)
	<hr/>
Total capital assets, net	973023
	<hr/>
Total Noncurrent Assets	1039013
 TOTAL ASSETS	 \$ 1060382
 <u>LIABILITIES</u>	
<i>Current Liabilities</i>	
Internal Balances	499
Deferred revenue	3765
Accounts Payable	6044
	<hr/>
TOTAL LIABILITIES	10308
 <u>NET ASSETS</u>	
Invested in capital assets, net of related debt	973023
Restricted for sewer maintenance and repair	77051
	<hr/>
TOTAL NET ASSETS	\$ 1050074
	<hr/>

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
ENTERPRISE FUND

MARCH 31, 2005

	SEWER FUND
<u>OPERATING REVENUE</u>	
Charges for Services	<u>\$ 41357</u>
TOTAL OPERATING REVENUE	\$ 41357
<u>OPERATING EXPENSES</u>	
Personal Services and Benefits	9788
Contractual Services	8033
Repairs and Maintenance	2539
Other Supplies and Expenses	3679
Administrative Expenses	0
Depreciation	44563
Miscellaneous	<u>0</u>
TOTAL OPERATING EXPENSES	68602
Operating Profit (Loss)	(27245)
<u>NON-OPERATING REVENUES (EXPENSES)</u>	
Interest Revenue	917
Interest Expense	<u>(1940)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	(1023)
CHANGE IN NET ASSETS	(28268)
NET ASSETS, APRIL 1	<u>1078342</u>
NET ASSETS, MARCH 31	<u><u>\$ 1050074</u></u>

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

**STATEMENT OF CASH FLOWS
ENTERPRISE FUND**

FISCAL YEAR ENDED MARCH 31, 2005

CASH FLOWS FROM (USED BY)

OPERATING ACTIVITIES

Net cash received from fees and services	\$41043
Other operating revenues	0
Cash payments to employees for services	(9788)
Cash payments to goods and services	(8207)
Other operating expenses	0
	<hr/>

NET CASH FROM OPERATING ACTIVITIES	\$23048
---	----------------

NON CAPITAL AND FINANCING ACTIVITIES

Increase (decrease) in due to other funds	0
(Increase) decrease in due from other funds	(2421)
Net operating transfers in (out)	0
	<hr/>

NET CASH FROM NON CAPITAL AND FINANCING ACTIVITIES	(2421)
---	---------------

CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(10885)
Principal payment on long-term bonds	(55000)
Interest paid on long-term bonds	(1941)
Interest and tax expense	0
Proceeds from borrowings	0
Contributed capital grants	0
	<hr/>

NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(67826)
--	----------------

INVESTING ACTIVITIES

Interest Income	917
	<hr/>

NET CASH FROM INVESTING ACTIVITIES	917
---	------------

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(46282)
---	----------------

Cash and Cash Equivalents, Beginning of Year	121336
	<hr/>

Cash and Cash Equivalents, End of Year	\$75054
---	----------------

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

STATEMENT OF CASH FLOWS
ENTERPRISE FUND
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

**CASH FLOWS FROM OPERATING
ACTIVITIES**

Operating Income (Loss)	\$ (27245)
Adjustment to reconcile operating income to net cash provided by operating activities:	
. Depreciation	44563
. Provision for uncollectible accounts	0
. Changes in assets and liabilities :	
(Increase) Decrease in accounts receivable	(784)
Increase (Decrease) in accounts payable	6044
Increase (Decrease) in deferred revenue	470
Increase (Decrease) in customer deposits	0
NET CASH FROM OPERATING ACTIVITIES	<u><u>\$ 23048</u></u>

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS

MARCH 31, 2005

	<u>Agency Fund</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$ 166841</u>
TOTAL ASSETS	\$ 166841
 <u>LIABILITIES</u>	
Due to Other Funds	112460
Due to Other Governmental Units	<u>54381</u>
TOTAL LIABILITIES	166841
 NET ASSETS	 <u><u>\$ 0</u></u>

The notes to the financial statements are an integral part of this report.

NOTES TO THE FINANCIAL STATEMENTS

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting methods and procedures adopted by the **Township of Sagola**, Channing, Michigan, conform to generally accepted accounting policies as applicable to governmental entities. The following is a summary of the more significant policies:

THE FINANCIAL REPORTING ENTITY

The **Township of Sagola** covers an area of approximately 162 square miles. The Township operates under an elected Council (5 members) and provides services to more than 1166 residents in many areas including fire protection, street development and maintenance, and sewer services. In accordance with the provisions of GASB 14, certain other governmental organizations are not considered to be part of the Township entity for financial reporting purposes. The criteria established by GASB 14 for determining the various governmental organizations to be included in the reporting entity's financial statements include separation of electing governing body and legal status, and fiscal independence.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

On this basis, the financial statements of certain other governmental organizations are not included in the financial statements of the Township.

BLENDED COMPONENT UNITS

A blended component unit is a legally separate entity from the local unit, but it is so intertwined with the unit that it is, in substance, the same as the local governmental unit.

A basic strategy of GASB 14 is to present financial information for component units separately from the financial information for the primary government. This is achieved through the discrete presentation method. However, in the case of blended component units, GASB believes that it would be more appropriate to use the blending method to incorporate the financial information of a component unit into the reporting entity's financial statements.

TOWNSHIP OF SAGOLA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BLENDED COMPONENT UNITS (Continued)

When the blending method is used, transactions and balances of a component unit are merged with similar transactions and balances of the primary government so that there is no way to identify which balances relate to the component unit and which relate to the primary government.

There are no blended component units reported in the audited financial statements for the **Township of Sagola**.

JOINT VENTURES

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or an ongoing financial responsibility.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINT VENTURES (Continued)

An ongoing financial responsibility is determined as a participating government's obligation in some manner for debts or the joint venture's existence depends on continued funding by the participating government.

There are no joint ventures to be reported.

JOINTLY GOVERNED ORGANIZATIONS

A jointly governed organization is a multi-governmental arrangement that is governed by representatives from each of the governments that create the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility.

There are no jointly governed organizations to be reported.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RELATED ORGANIZATIONS

A related organization is an organization for which a primary government is not financially accountable (because it does not impose will or have a financial benefit or burden relations) even though the primary government appoints a voting majority of the organization's governing board.

There are no related organizations to be reported.

BASIS OF PRESENTATION

The Township follows GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB Statement No. 34 adds the following components to the financial statements:

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Management's Discussion and Analysis

A narrative introduction and analytical overview of the government's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

Government-wide financial statements

These include financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

*Government-wide financial statements
(Continued)*

Annual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter. The government-wide statements include the Statement of Net Assets and the Statement of Program Activities.

Statement of Net Assets

The Statement of Net Assets displays the financial position of the primary government (government and business-type activities).

Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expenses - the cost of "using up" capital assets - in the Statement of Activities.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Statement of Net Assets (Continued)

The net assets of a government are broken down into three categories - 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Program Activities

The statement of program activities reports expenses and revenues in a format that focuses on the cost of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

Budgetary comparison schedule

Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

Budgetary comparison schedules (Continued)

Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The Township and many other governments revise their original budgets over the course of the year for a variety of reasons.

As required by accounting principles generally accepted in the United States of America, these financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The basic financial statements include both government-wide (based on the Township as a whole) and fund financial statements.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION

GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)

The reporting model focus is on both the Township as a whole and the fund financial statements, including the major individual funds of governmental and business-type categories, as well as the fiduciary funds.

Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Both governmental-wide and fund financial statement presentations provide valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the financial information.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

The Township generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available. The Township may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) that are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)

The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operation or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The Township does not allocate indirect expenses. The operating grants and contributions column includes operating-specific and discretionary (either operating or capital) grants while the capital grants and contributions column reflects capital-specific grants.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)

In the fund financial statements, financial transactions and accounts of the Township are organized in the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental activities column of the government-wide financial statements.

The Township's fiduciary funds are presented in the fund financial statements by type (pension, private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)

The following is a brief description of the specific funds used by the Township.

GOVERNMENTAL FUNDS

These funds are those through which most governmental functions typically are financed.

The acquisition, use, and balances of the Township's expendable financial resources and the related current liabilities, except those accounted for in the Proprietary Fund, are accounted for through the Governmental Funds. These funds are as follows:

General Fund

This fund is used for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

GOVERNMENTAL FUNDS (Continued)

General Fund (Continued)

Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

For reporting purposes, the General Fund is always considered to be a major fund.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action. The Township's *Liquor, Fire, Recreation, and Road Repair* funds are Special Revenue Funds.

The Fire and Road Repair funds are considered to be major funds for reporting purposes. The Liquor Law Enforcement Fund and the Recreation Fund are considered non-major funds for reporting purposes.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

GOVERNMENTAL FUNDS

Debt Service Fund

This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

There is currently no debt service fund for the Township.

Capital Projects Fund

These funds are used to account for the purchase and/or construction of capital facilities by a governmental unit which are not accounted for by Proprietary Funds, Special Assessment Funds, or Trust Funds. The various resources of the governmental unit to be used in the projects, such as General Fund contributions, grants from other units of government and bond proceeds, flow into the Capital Project Fund. Expenditures incurred in the development of the facility are also recorded within the Capital Project Fund.

There is currently no capital projects fund for the Township.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

PROPRIETARY FUNDS

Enterprise Funds

These funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises----where the intent of the governing body is that the costs (expenses including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purpose.

The Township's Sewer Fund is an Enterprise Fund. It is also a major fund for reporting purposes.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

FIDUCIARY FUNDS

Trust and Agency Funds are used to account for assets held by the Township in a trustee capacity for individuals, private organizations, other governmental units, and/or other funds.

The Township's *Current Tax Collection Fund* is a Fiduciary Fund. Agency funds are custodial in nature and do not involve measurement of results of operations.

Accounting for Expendable Trust funds parallels accounting for governmental funds (modified accrual basis/approximate flow of current financial resources). Pension Trust Funds and Nonexpendable Trust Funds are accounted for in a manner similar to proprietary funds (accrual basis/flow of economic resources).

Currently, the Township has no expendable trust funds.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current liabilities generally are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide statement of net assets and statement of activities, all proprietary funds, and private purpose trust funds and pension trust funds are accounted for on a flow of economic resources measurement focus.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

With this measurement focus, all assets and all liabilities associated with the operation of these activities are either included on the statement of net assets or on the statement of fiduciary net assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The statement of net assets, statement of activities, and financial statements of the Proprietary Fund and the Fiduciary Fund are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

The fund financial statements of the General, Special Revenue, Debt Service, and Capital Projects funds are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term "available" is limited to collection within forty-five days of the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and State reimbursement-type grants revenue is considered to be measurable and available as revenue when related eligible expenditures are incurred.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

The local government unit applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed for accountability purposes only.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

ENCUMBRANCES (Continued)

It is the Township's policy to honor all unfilled contracts/orders at year-end, but the authority to complete these transactions is provided by the new year's budget appropriations, as unexpended appropriations of the current year lapse at year-end.

CASH AND CASH EQUIVALENTS

The Township pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements.

The Township classifies cash on hand, cash on deposit (including certificates of deposit), and highly liquid investments with an original maturity of ninety days or less when purchased as cash in its financial statements.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

INVENTORIES

Inventories of supplies are expended as received.

RECEIVABLES

Accounts which will be collected within sixty days of year-end are accrued as accounts receivable in the General and Special Revenue Funds. User charges for the Proprietary Fund are recorded as receivable when billed. On an annual basis the charges are reviewed for collectibility. Those deemed uncollectible are assigned to the tax roll.

INTEREST RECEIVABLE

Interest on certificates of deposit is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

DUE TO/FROM OTHER FUNDS

Transactions between funds that had not been paid or received as of fiscal year end have been recorded as inter-fund accounts receivable and payable in the financial statements. These inter-fund receivables and payables do not represent Board-approved loans between funds.

DEFERRED REVENUE

Deferred revenue represents amounts under the modified accrual basis of accounting for which asset recognition criteria have been met but for which revenue recognition criteria have not been met, whereby such amounts are measurable but not considered currently available resources.

FUND EQUITY

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances represent the amount that has been legally identified for specific purposes.

TOWNSHIP OF SAGOLA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

FUND EQUITY (Continued)

Designated fund balances represent amounts earmarked by the Township for future expenditures.

Unreserved retained earnings represent net assets available for future operations or distribution. Reserved retained earnings represent net assets that have been legally identified for specific purposes. Designated retained earnings represent amounts earmarked by the Township for future expenditures.

RESERVED FUND BALANCES

The fund balance of the Fire Fund is reserved to provide fire protection services.

The fund balance in the Recreation Fund is reserved for recreation.

The fund balance in the Road Fund is reserved for road repair.

The fund balance in the Liquor Law Enforcement Fund is reserved for liquor law enforcement.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

RESERVED FUND BALANCES (Continued)

Retained earnings in the Sewer Fund is reserved for sewer repairs and improvements.

BUDGETS AND BUDGETARY ACCOUNTING

The Township follows the State of Michigan Uniform Budgeting and Accounting Act for budgeting procedures. Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general and special revenue funds. Unexpended appropriations lapse at fiscal year-end.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Prior to March 31 of the preceding fiscal year, the Township prepares a budget for the next fiscal year beginning April 01. The operating budget includes proposed expenditures and the means of financing them.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

BUDGETS AND BUDGETARY ACCOUNTING
(Continued)

2. A meeting of the Township Board is then called for the purpose of adopting the proposed budget after sufficient public notice of the meeting has been given.
3. Prior to April 01, the budget is legally enacted through passage of a resolution by the members of the Township Board.

Once the budget is approved, it can be amended at the Function and Fund level only by approval of a majority of the members of the Township Board. Amendments are presented to the Board at their regular meetings. Each amendment must have Board approval.

TOWNSHIP OF SAGOLA

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

PROPERTY TAX

Property taxes are levied on December 31 of the preceding year, and are payable on December 01. They are considered delinquent and become a lien the following March 01. Property tax revenues are recognized in the fiscal year for which they have been levied and become available. The Township bills and collects its own property taxes and also collects taxes for the County and several school districts within its jurisdiction. Collections and remittances of the county and school taxes are accounted for in the Current Tax Collection Fund (The Trust and Agency Fund).

The delinquent real property taxes of the Township are purchased by the County of Dickinson during the second quarter of each year with proceeds from the sale of tax notes, resulting in total collection of real property taxes each year. Delinquent personal property taxes are recorded as receivable if considered to be collectible within 60 days of year-end.

TOWNSHIP OF SAGOLA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

PROPERTY TAX (Continued)

During the fiscal year ended March 31, 2005, the Township properties had a taxable value of \$ 40,728,531, on which was levied 1.3458 mills to finance general operations, .9991 mill for fire protection, and 1.0000 mill to finance ambulance services.

In addition, the Sawyer Lake residents will be assessed an annual special assessment for a period of 5 years to offset the cost of the treatment of a weevil infestation on Sawyer Lake.

NON-MONETARY TRANSACTIONS

The Single Audit Act of 1984, as amended, and OMB Circular A-133 defines federal financial assistance to include both monetary and non-monetary forms of assistance provided by or passed down from a federal agency, such as grants, contracts, loans, loan guarantees, property, etc.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

CAPITAL ASSETS

Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds (when applicable) and as assets in the governmental-wide statements to the extent the Township's capitalization threshold of \$ 500 is met. Depreciation is recorded on general fixed assets on a government-wide basis using the straight-line method and the following estimated useful lives:

Buildings.....	20 - 30 years
Infrastructure.....	10 - 65 years
Furniture and Other Equipment.....	5 - 20 years

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

CAPITAL ASSETS (Continued)

To the extent the Township's capitalization threshold of \$ 500 is met, capital outlays of the Proprietary Funds are recorded as fixed assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the governmental-wide basis using the straight-line method and the following estimated useful lives:

Land Improvements..... 20 years

Equipment..... 5 - 20 years

All fixed assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

TOWNSHIP OF SAGOLA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

CAPITAL ASSETS (Continued)

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

COMPENSATED ABSENCES

The Township has no employees eligible to accrue vacation or sick pay.

POST EMPLOYMENT BENEFITS

The Township offers no post-employment benefits.

TOWNSHIP OF SAGOLA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - INTERFUND ACTIVITIES

INTERFUND RECEIVABLES AND PAYABLES

Inter-fund receivables and payables do not represent inter-fund borrowings; instead, they represent actual amounts which are pending between funds at year-end due to the timing of cash flows. Generally, these amounts clear shortly after year-end when resources become available.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE B - INTERFUND ACTIVITIES (CONTINUED)

The amounts of the inter-fund receivables and payables as of March 31, 2005 were as follows:

<u>Fund</u>	<u>Inter-fund Receivable</u>	<u>Inter-fund Payable</u>
General	\$ 128216	\$ 42975
Trust and Agency	0	112460
Fire	37735	15211
Sewer	5240	499
Liquor Law	0	46
Totals	\$ <u>171191</u>	\$ <u>171191</u>

The above amounts do not represent inter-fund borrowings; instead, they represent actual amounts which are pending between funds at year-end due to the timing of cash flows. Generally, these amounts clear shortly after year-end when resources become available.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE B - INTERFUND ACTIVITIES (CONTINUED)

OPERATING TRANSFERS

Inter-fund transfers are the result of legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.

During the current fiscal year, the General Fund transferred \$ 50,000 to the Road Fund for road repair, and \$ 12,300 to the Recreation Fund for recreation.

OTHER FINANCING SOURCES (USES)

The transfers of cash between the various Township funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS

PRIMARY GOVERNMENT

On March 31, 2005, the carrying value of the Township's deposits (Primary Government) was \$ 679,121 and is comprised of cash and deposits reflected in the following funds:

Governmental Funds

General Fund	\$ 411036
Liquor Law Enforcement Fund	7741
Fire Fund	5752
Recreation Fund	509
Road Fund	<u>12188</u>
Total Governmental Funds	\$ 437226

(Continued on page 77)

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

PRIMARY GOVERNMENT (Continued)

(Continued from previous page)

<i>Enterprise Funds</i>	\$	
Sewer Fund		<u>75054</u>
<i>Total Enterprise Funds</i>	\$	75054
<i>Fiduciary Funds</i>		
Tax Collection Fund		<u>166841</u>
<i>Total Fiduciary Funds</i>	\$	166841
<i>Total Primary Government</i>	\$	679121

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the local unit's cash deposits classifies cash according to three levels of risk.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

The three levels of risk are as follows:

- | | |
|------------|--|
| Category 1 | Deposits which are insured or collateralized with securities held by the Township or by its agent in the Township's name. |
| Category 2 | Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Township's name. |
| Category 3 | Deposits which are not collateralized or insured. |

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

Based on these levels of risk, the Township's cash deposits (Primary Government) are classified as follows:

SCHEDULE OF CASH AND DEPOSITS

PRIMARY GOVERNMENT

	<u>Category</u> <u>1</u>	<u>Category</u> <u>2</u>	<u>Category</u> <u>3</u>	<u>Totals</u>
Cash and Deposits	\$ 100000	\$ -0-	\$ 579121	\$ 679121

INVESTMENTS

The Township's investments are categorized below to give an indication of the level of risk assumed at year-end. **Category 1** includes investments that are insured or registered or for which the securities are held by the Township or its agent in the Township's name.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

INVESTMENTS (Continued)

Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's safekeeping department or agent in the Township's name. Category 3 includes uninsured and registered investments for which the securities are held by the broker or dealer, or by its safekeeping department or agent, but not in the Township's name.

There are no investments for the Township, as reflected below:

<u>Investment Type</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Value</u>	<u>Market Value</u>
	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Total Investments	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY

Act 196, PA 1997, authorizes the Township to deposit and invest in:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution eligible to be a depository of funds belonging to the State of Michigan under a law or rule of this state or the United States.
3. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY (Continued)

4. Repurchase agreements consisting of instruments issued by the United States or an agency or instrumentality of the United States.
5. Bankers acceptances of United States banks.
6. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. Mutual funds registered under the Investment Act of 1950 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

TOWNSHIP OF SAGOLA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

MARCH 31, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY (Continued)

The Township has adopted an investment policy, allowing for all types of deposits and investments listed above. The Township's deposits and investments are in compliance with it's investment policy.

NOTE D - PENSION PLAN

DESCRIPTION OF PLAN AND PLAN ASSETS

The Township maintains a fully funded pension plan for its full-time employees and trustees through Manu-life Financial. The contribution for the year ended March 31, 2005 was \$ 3,000, of which \$ 750 was contributed through payroll withholding. The plan is fully funded by annuity contracts. On the most recent statement prepared, as of December 2004, the value of the account was \$ 19,983.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE E - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

BUDGET VIOLATIONS

P.A. 621 of 1978, SECTION 18 (1), as amended, provides a local unit shall not incur expenditures in excess of the amounts appropriated.

The Township of Sagola's actual expenditures and budgeted expenditures for the funds budgeted have been shown on an activity basis. The approved budgets of the Township of Sagola were adopted at the activity level. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

There were no expenditures that exceeded the amended budget allocations.

TOWNSHIP OF SAGOLA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

MARCH 31, 2005

NOTE F - ACCUMULATED FUND DEFICITS

At March 31, 2005, the Township had no fund balance/retained earnings deficit in any fund.

NOTE G - RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Township.

NOTE H - CAPITAL ASSETS

The following is a summary of the changes in capital assets for the fiscal year ended March 31, 2005:

TOWNSHIP OF SAGOLA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

MARCH 31, 2005

NOTE H - CAPITAL ASSETS (CONTINUED)

	Balance March 31, 2004	Increases	Decreases	Balance March 31, 2005
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated	\$	\$	\$	\$
Land and Land Improvements	85641	0	0	85641
Total Capital Assets Not Being Depreciated	\$ 85641	\$ 0	\$ 0	\$ 85641
Other Capital Assets				
Buildings	178318	0	0	178318
Furniture & Other Equip.	362818	227301	0	590119
Total Other Cap. Assets	\$ 541136	\$ 227301	\$ 0	\$ 768437
Less Accumulated Depreciation for:				
Buildings	(132995)	(1437)	0	(134432)
Furniture & Other Equip.	(293830)	(21284)	0	(315114)
Total Accum. Depreciation	(426825)	(22721)	0	(449546)
Other Capital Assets, Net	114311	204580	0	318891
TOTAL GOVERNMENTAL ACTIVITIES	\$ <u>199952</u>	\$ <u>204580</u>	\$ <u>0</u>	\$ <u>404532</u>

Depreciation was charged to governmental
functions as unallocated.

TOWNSHIP OF SAGOLA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

MARCH 31, 2005

NOTE H - CAPITAL ASSETS (CONTINUED)

BUSINESS-TYPE ACTIVITIES

The following is a summary of changes in capital assets for business-type activities for the fiscal year ended March 31, 2005:

	Balance March 31, 2004	<u>Increases</u>	<u>Decreases</u>	Balance March 31, 2005
<u>BUSINESS-TYPE ACTIVITIES</u>				
<u>Capital Assets Not Being Depreciated:</u>				
Land, Easements and Right-of-Way	\$ 0	\$ 0	\$ 0	\$ 0
<u>Other Capital Assets:</u>				
Machinery and Equipment	2436	10885	0	13321
Sewer Mains/Lines	<u>1737508</u>	<u>0</u>	<u>0</u>	<u>1737508</u>
Total Capital Assets	\$ 1739944	\$ 10885	\$ 0	\$ 1750829

(Continued on page 88)

TOWNSHIP OF SAGOLA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

MARCH 31, 2005

NOTE H - CAPITAL ASSETS (CONTINUED)

BUSINESS-TYPE ACTIVITIES (Continued)

(Continued from previous page)

	Balance March 31, 2004	<u>Increases</u>	<u>Decreases</u>	Balance March 31, 2005
Less Accumulated Depreciation for:				
Machinery and Equipment	\$ (1218)	\$ (1125)	0	\$ (2343)
Sewer Mains/Lines	<u>(732025)</u>	<u>(43438)</u>	<u>0</u>	<u>(775463)</u>
 Total Accumulated Depreciation	 <u>(733243)</u>	 <u>(44563)</u>	 <u>0</u>	 <u>(777806)</u>
 TOTAL BUSINESS-TYPE ACTIVITIES	 \$ <u>1006701</u>	 \$ <u>(33678)</u>	 \$ <u>0</u>	 \$ <u>973023</u>

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE I - LONG-TERM DEBT

	Balance 4/01/04	Increases	Decreases	Balance 3/31/05
<u>BUSINESS-TYPE ACTIVITIES</u>				
Sewage Disposal System	\$	\$	\$	\$
Revenue Bonds	<u>55000</u>	<u>-0-</u>	<u>55000</u>	<u>-0-</u>
 TOTAL	 \$ <u>55000</u>	 \$ <u>-0-</u>	 \$ <u>55000</u>	 \$ <u>-0-</u>

SEWAGE DISPOSAL SYSTEM REVENUE BONDS

The first series bond is designated as the Sewage Disposal System Revenue Bond, dated April 01, 1984. The \$335000 was borrowed from FmHA to help pay part of the cost of acquiring and constructing a Sewage Disposal System.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE I - LONG-TERM DEBT (CONTINUED)

SEWAGE DISPOSAL SYSTEM REVENUE BONDS
(Continued)

Beginning on 9/23/87, payment was made to General Electric Capital Corporation as part of the Community Programs loan sale required by the Omnibus Budget Reconciliation Act of 1986.

The National Rural Water Association assisted GECC in servicing and making periodic inspections. The Bond was payable in principal installments on April 1 of each year. The Bond bore interest at the rate of 5 percent per annum, payable on the first day of April or October following the date of delivery of said installments, and semiannually thereafter on April 1 and October 1 of each year until maturity, or earlier prepayment of said installment.

The bonds were paid in full during the current fiscal year.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE J - SEGMENT INFORMATION - Enterprise Fund

		<u>Sewer Fund</u>
Operating Revenues	\$	41357
Depreciation and Amortization Expense		44563
Operating Income or (Loss)		(27245)
Operating Grants, Entitlements, and Shared Revenues		0
Operating Transfers		
In		0
(Out)		0
Tax Revenues		0
Net Income or Loss		(28268)
Current Capital:		
Contributions		0
Transfers		0
Property, Plant, and Equipment		
Additions		0
Deletions		0

(Continued on page 92)

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE J - SEGMENT INFORMATION - Enterprise Fund (CONTINUED)

(Continued from previous page)

		<u>Sewer Fund</u>
Net Working Capital	\$	77051
Total Assets		1060382
Bonds and Other Long Term		
Liabilities		
Payable from operating		
Revenues		0
Payable from Other Sources		0
Total Equity	\$	1050074

NOTE K - RELATED PARTY TRANSACTIONS

Related parties exist when there is a relationship that offers potential for transactions at less than arm's length, favorable treatment, or the ability to influence the outcome of events differently from that which might result in the absence of that relationship.

TOWNSHIP OF SAGOLA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

MARCH 31, 2005

NOTE K - RELATED PARTY TRANSACTIONS (CONTINUED)

Financial statements must include disclosure of material related party transactions, other than compensation arrangements, expense allowances and similar items in the ordinary course of business. However, disclosure of transactions that are eliminated in the preparation of combined financial statements is not required in those statements.

On this basis, there are no related party transactions reported in the financial statements.

NOTE L - SUBSEQUENT EVENTS

Subsequent events have a material effect on the financial statements which requires adjustment or disclosure.

TOWNSHIP OF SAGOLA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

MARCH 31, 2005

NOTE L - SUBSEQUENT EVENTS (CONTINUED)

They relate to events that provide additional evidence with respect to conditions that existed at the date of the balance sheet and events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date.

At fiscal year ended March 31, 2005, there were no subsequent events that would have a significant affect on the Township's operations.

NOTE M - COMMITMENTS AND CONTINGENCIES

There are no commitments or contingencies to be reported for the **Township of Sagola** for the fiscal year ended March 31, 2005.

REQUIRED SUPPLEMENTAL INFORMATION

TOWNSHIP OF SAGOLA

**REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISION SCHEDULE
GENERAL FUND**

YEAR ENDED MARCH 31, 2005

<u>REVENUES</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL AMENDED BUDGET</u>	<u>ACTUAL</u>
General Property Taxes	\$45000	\$45000	\$55871
Other Local Taxes	48408	48408	56509
Licenses, Permits, and Fees	996	996	1184
Sale of Property	0	0	0
Use of Money and Property	6804	8004	10253
Charges for Services - Tax Collection	3504	3504	6258
Charges for Services - Garbage Collection	15000	15000	20690
Cemetary Revenue	1800	1800	2925
Miscellaneous	1448	896	319
Intergovernmental	70000	70000	79357
TOTAL REVENUES	\$192960	\$193608	\$233366
<u>EXPENDITURES</u>			
General Government	72096	74529	54545
Legislative	72856	71286	37295
Township Property	102060	84564	43737
Cemetary	13796	13979	5690
Sanitation and Health	40308	40508	35198
Capital Outlay	0	0	0
TOTAL EXPENDITURES	\$301116	\$284866	\$176465
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In	0	0	0
Transfers (Out)	(72000)	(62000)	(62300)
TOTAL OTHER FINANCING SOURCES (USES)	(72000)	(62000)	(62300)
NET CHANGE IN FUND BALANCE	(180156)	(153258)	(5399)
FUND BALANCE, APRIL 01	501523	501523	501523
FUND BALANCE, MARCH 31	<u>\$321367</u>	<u>\$348265</u>	<u>\$496124</u>

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISION SCHEDULE
FIRE FUND

YEAR ENDED MARCH 31, 2005

	<u>ORIGINAL BUDGET</u>	<u>FINAL AMENDED BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
General Property Taxes	\$33000	\$33000	\$42364
Charges for Services	204	204	200
Use of Money and Property	1800	1800	337
Intergovernmental	0	0	750
Miscellaneous	50	50	50
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	\$35054	\$35054	\$43701
<u>EXPENDITURES</u>			
Public Safety	44960	25455	17814
Capital Outlay	8400	216630	216627
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	53360	242085	234441
NET CHANGE IN FUND BALANCE	(18306)	(207031)	(190740)
FUND BALANCE, APRIL 01	222440	222440	222440
	<hr/>	<hr/>	<hr/>
FUND BALANCE, MARCH 31	<u>\$204134</u>	<u>\$15409</u>	<u>\$31700</u>

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
ROAD FUND

YEAR ENDED MARCH 31, 2005

	<u>ORIGINAL BUDGET</u>	<u>FINAL AMENDED BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Intergovernmental	\$0	\$4055	\$4055
Use of Money and Property	<u>700</u>	<u>700</u>	<u>383</u>
TOTAL REVENUES	\$700	\$4755	\$4438
<u>EXPENDITURES</u>			
Public Works	<u>100000</u>	<u>100000</u>	<u>96883</u>
TOTAL EXPENDITURES	100000	100000	96883
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers In	<u>62000</u>	<u>50000</u>	<u>50000</u>
NET CHANGE IN FUND BALANCE	(37300)	(45245)	(42445)
FUND BALANCE, APRIL 01	<u>54633</u>	<u>54633</u>	<u>54633</u>
FUND BALANCE, MARCH 31	<u>\$17333</u>	<u>\$9388</u>	<u>\$12188</u>

The notes to the financial statements are an integral part of this report.

OTHER SUPPLEMENTAL INFORMATION

TOWNSHIP OF SAGOLA

**BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS**

MARCH 31, 2005

	<u>Liquor Law Enforcement Fund</u>	<u>Recreation Fund</u>	<u>Totals</u>
<u>ASSETS</u>			
Cash and Investments (Note C)	<u>\$ 7741</u>	<u>\$ 2309</u>	<u>\$ 10050</u>
TOTAL ASSETS	<u>\$ 7741</u>	<u>\$ 2309</u>	<u>\$ 10050</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Due to Other Funds	<u>46</u>	<u>0</u>	<u>46</u>
TOTAL LIABILITIES	46	0	46
<u>FUND BALANCE</u>			
Unreserved and Undesignated	<u>7695</u>	<u>2309</u>	<u>10004</u>
TOTAL FUND BALANCE	7695	2309	10004
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 7741</u>	<u>\$ 2309</u>	<u>\$ 10050</u>

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS**

MARCH 31, 2005

	<u>Liquor Law Enforcement Fund</u>	<u>Recreation Fund</u>	<u>Totals</u>
<u>Revenue</u>			
Property taxes	\$ 0	\$ 23700	\$ 23700
Intergovernmental	1911		1911
Total Revenue	1911	23700	25611
<u>Expenditures</u>			
Current:			
Public safety	1091		1091
Recreation and cultural		25736	25736
Capital outlay		10673	10673
Total Expenditures	1091	36409	37500
Excess (Deficiency) of Revenues Over Expenditures	820	(12709)	(11889)
Other Financing Sources (Uses)			
Operating transfers in	0	12300	12300
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	820	-409	411
Fund Balances - Beginning of Year	6875	2718	9593
Fund Balances - End of Year	<u><u>\$ 7695</u></u>	<u><u>\$ 2309</u></u>	<u><u>\$ 10004</u></u>

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

**COMBINING BALANCESHEET
ALL SPECIAL REVENUE FUNDS**

MARCH 31, 2005

ASSETS	LIQUOR	FIRE	RECREATION	ROAD REPAIR	TOTALS	
					March 31,	
					2005	2004
Cash and Deposits	\$7741	\$5752	\$509	\$12188	\$26190	\$243908
Taxes Receivable	0	3424	1800	0	5224	4398
Due from Other Funds	0	37735	0	0	37735	38466
TOTAL ASSETS	\$7741	\$46911	\$2309	\$12188	\$69149	\$286772
LIABILITIES AND FUND EQUITY						
LIABILITIES						
Due to Other Funds	46	15211	0	0	15257	106
FUND EQUITY						
Fund Balances - Reserved	7695	31700	2309	12188	53892	286666
TOTAL LIABILITIES AND FUND EQUITY	\$7741	\$46911	\$2309	\$12188	\$69149	\$286772

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY
ALL SPECIAL REVENUE FUNDS**

FISCAL YEAR ENDED MARCH 31, 2005

<u>REVENUES</u>	<u>LIQUOR</u>	<u>FIRE</u>	<u>RECREATION</u>	<u>ROAD REPAIR</u>	<u>TOTALS</u>	
					<u>MARCH 31,</u>	
					<u>2005</u>	<u>2004</u>
Taxes	\$	\$42364	\$23700	\$	\$66064	\$65699
State Sources	1911			4055	5966	1911
Federal Sources		750			750	0
Charges for Services		200			200	200
Interest Income		337		383	720	3408
Other		50			50	31
TOTAL REVENUES	1911	43701	23700	4438	73750	71249
<u>EXPENDITURES</u>						
Public Safety	1091	17814			18905	21468
Public Works				96883	96883	63817
Recreation and Cultural			25736		25736	24601
Capital Outlay		216627	10673		227300	8760
TOTAL EXPENDITURES	1091	234441	36409	96883	368824	118646
Excess of Revenues Over (Under) Expenditures	820	(190740)	(12709)	(92445)	(295074)	(47397)
Other Financing Sources (Uses)						
Transfers In			12300	50000	62300	30000
Transfers Out						
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	820	(190740)	(409)	(42445)	(232774)	(17397)
FUND EQUITY, APRIL 1	6875	222440	2718	54633	286666	304063
FUND EQUITY, MARCH 31	\$7695	\$31700	\$2309	\$12188	\$53892	\$286666

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

BALANCE SHEET
GENERAL FUND

MARCH 31, 2005

ASSETS

Cash and Deposits, Unrestricted	\$210565
Cash and Deposits, Restricted	200471
Receivables -	
Taxes	4606
Accounts	1050
Inventory	418
Due from Other Funds	128216
	<hr/>
TOTAL ASSETS	<u>\$545326</u>

LIABILITIES AND FUND EQUITY

LIABILITIES

Accounts Payable	6227
Due to Other Funds	42975
	<hr/>
TOTAL LIABILITIES	49202

FUND EQUITY

Fund Balance -	
Reserved	0
Unreserved	496124
	<hr/>
TOTAL FUND EQUITY	496124

TOTAL LIABILITIES AND FUND EQUITY	<u>\$545326</u>
-----------------------------------	-----------------

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

STATEMENT OF REVENUES
ACTUAL AND BUDGET
GENERAL FUND

FISCAL YEAR ENDED MARCH 31, 2005

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<u>REVENUES</u>			
<u>Taxes</u>			
Property Taxes	\$55871	\$	\$
Administration Fees	17213		
Other Taxes	39296		
Total Taxes	112380	93408	18972
<u>State Shared Receipts</u>	79357		
Total State Shared Receipts	79357	70000	9357
<u>Charges for Services</u>			
Tax Collection	20690		
Garbage Fees	6258		
Total Charges for Services	26948	18504	8444
<u>Interest and Rentals</u>			
Interest	8853		
Rental -			
Community Building	200		
Tower	1200		
Total Interest and Rentals	10253	8004	2249
<u>Cemetery</u>	2925		
Total Cemetery	2925	1800	1125
<u>Other Revenue</u>			
Refunds	0		
Zoning Fees	1184		
Other	319		
Total Other Revenue	1503	1892	(389)
TOTAL REVENUES	<u>\$233366</u>	<u>\$193608</u>	<u>\$39758</u>

The notes to the financial statements are integral part of this report.

TOWNSHIP OF SAGOLA

**STATEMENT OF EXPENDITURES
ACTUAL AND BUDGET - GENERAL FUND**

FISCAL YEAR ENDED MARCH 31, 2005

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<u>LEGISLATIVE</u>			
Township Board			
Salaries	\$ 1430	\$	\$
Fringe Benefits	403		
Health Insurance	3840		
Life Insurance	55		
Pension Plan	2696		
Audit	6221		
Legal Services	850		
Mileage	157		
Printing and Publishing	427		
Liability Insurance	8962		
Supplies	1246		
Community Promotion	889		
Education and Training	115		
Dues	1246		
Utilities	8708		
Miscellaneous	50		
Total Township Board	<u>37295</u>	<u>71286</u>	<u>33991</u>
TOTAL LEGISLATIVE	\$37295	\$71286	\$33991
<u>GENERAL GOVERNMENT</u>			
Supervisor			
Salaries	6000		
Fringe Benefits	459		
Total Supervisor	<u>6459</u>	<u>7593</u>	<u>1134</u>
Assessor			
Office Supplies	592		
Contract Services	17100		
Total Assessor	<u>17692</u>	<u>23200</u>	<u>5508</u>
Elections			
Salaries	1643		
Contract Services	1236		
Office Supplies	165		
Mileage	496		
Miscellaneous	62		
Total Elections	<u>\$ 3602</u>	<u>\$ 6006</u>	<u>\$ 2404</u>

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

**STATEMENT OF EXPENDITURES
ACTUAL AND BUDGET - GENERAL FUND
(Continued)**

FISCAL YEAR ENDED MARCH 31, 2005

<u>GENERAL GOVERNMENT (Continued)</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Clerk			
Salaries	\$ 9060	\$ 0	\$ 0
Fringe Benefits	693		
Office Supplies	753		
Mileage	12		
Miscellaneous	0		
	<hr/>	<hr/>	<hr/>
Total Clerk	10518	11708	1190
Treasurer			
Salaries	9060		
Fringe Benefits	693		
Office Supplies	2208		
Mileage	38		
Miscellaneous	0		
	<hr/>	<hr/>	<hr/>
Total Treasurer	11999	14396	2397
Board of Review			
Salaries	80		
Fringe Benefits	6		
Office Supplies	0		
Mileage	40		
Miscellaneous	0		
	<hr/>	<hr/>	<hr/>
Total Board of Review	126	2407	2281
Zoning Board			
Salaries	2540		
Fringe Benefits	194		
Publishing/Printing	244		
Office Supplies	181		
Mileage	90		
Miscellaneous	0		
	<hr/>	<hr/>	<hr/>
Total Zoning Board	3249	7119	3870
Enforcement Officer			
Contract Services	900		
Miscellaneous	0		
	<hr/>	<hr/>	<hr/>
Total Enforcement Officer	900	2100	1200
TOTAL GENERAL GOVERNMENT	\$54545	\$74529	\$19984

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

**STATEMENT OF EXPENDITURES
ACTUAL AND BUDGET - GENERAL FUND
(Continued)**

FISCAL YEAR ENDED MARCH 31, 2005

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<u>TOWNSHIP PROPERTY</u>			
Township Hall			
Salaries	\$ 24546	\$ 0	\$ 0
Fringe Benefits	1878		
Office Supplies	0		
Repairs and Maintenance	5905		
Utilities	7096		
Monthly Sewer Fees	552		
Contracted Services	50		
Miscellaneous	25		
Operating Supplies	3685		
	<hr/>	<hr/>	<hr/>
Total Township Hall	43737	84564	40827
TOTAL TOWNSHIP PROPERTY	43737	84564	40827
<u>CEMETERY</u>			
Salaries	2248		
Fringe Benefits	172		
Repairs and Maintenance	291		
Operating Supplies	4		
Mileage	13		
Miscellaneous	0		
Contracted Services	2962		
	<hr/>	<hr/>	<hr/>
TOTAL CEMETERY	5690	13979	8289
<u>SANITATION AND HEALTH</u>			
Contracted Services	34780		
Mileage	388		
Supplies	0		
Printing and Publishing	30		
Miscellaneous	0		
	<hr/>	<hr/>	<hr/>
TOTAL SANITATION AND HEALTH	35198	40508	5310
CAPITAL OUTLAY	0	0	0
TOTAL EXPENDITURES	<u>\$176465</u>	<u>\$284866</u>	<u>\$108401</u>

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

BALANCE SHEET
LIQUOR LAW ENFORCEMENT FUND

MARCH 31, 2005

ASSETS

Cash and Deposits \$ 7741

TOTAL ASSETS **\$ 7741**

LIABILITIES AND FUND EQUITY
LIABILITIES

Due to Other Funds 46

FUND EQUITY

Fund Balance - Reserved for Liquor Law Enforcement 7695

TOTAL LIABILITIES AND FUND EQUITY **\$ 7741**

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY
LIQUOR LAW ENFORCEMENT FUND
ACTUAL AND BUDGET**

FISCAL YEAR ENDED MARCH 31, 2005

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<u>REVENUES</u>			
<u>State Sources</u>			
Grant	\$ 1911	\$ 1800	\$ 111
TOTAL REVENUES	\$ 1911	\$ 1800	\$ 111
<u>EXPENDITURES</u>			
<u>Public Safety</u>			
Salaries	400	600	200
Fringe Benefits	31	60	29
Contract Services	420	600	180
Mileage	240	240	0
Capital Outlay	0	400	400
TOTAL EXPENDITURES	1091	1900	809
Excess of Revenues Over (Under) Expenditures	820	(100)	920
Other Financing Sources (Uses) Operating Transfers In	0	0	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	820	(100)	920
FUND EQUITY, APRIL 1	6875		
FUND EQUITY, MARCH 31	<u><u>\$ 7695</u></u>		

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

BALANCE SHEET
FIRE FUND

MARCH 31, 2005

ASSETS

Cash and Deposits	\$ 5752
Delinquent Taxes Receivable	3424
Due from Other Funds	<u>37735</u>

TOTAL ASSETS	<u>\$ 46911</u>
---------------------	------------------------

LIABILITIES AND FUND EQUITY
LIABILITIES

Due to Other Funds	15211
--------------------	-------

FUND EQUITY

Fund Balance - Reserved for Fire Protection	<u>31700</u>
---	--------------

TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 46911</u>
--	------------------------

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY
FIRE FUND
ACTUAL AND BUDGET**

FISCAL YEAR ENDED MARCH 31, 2005

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES			
<u>Local Sources</u>			
Taxes	\$ 42364	\$ 33000	\$ 9364
Charges for Services	200	204	(4)
Interest Income	337	1800	(1463)
Other Income	50	50	0
<u>Federal Sources</u>			
Grant	750	0	750
TOTAL REVENUES	43701	35054	8647
EXPENDITURES			
<u>Public Safety</u>			
Salaries	0	2004	2004
Fringe Benefits	0	144	144
Office Expense	0	96	96
Supplies	2979	3895	916
Repairs and Maintenance	1788	2256	468
Utilities	3806	5256	1450
Insurance	8083	9500	1417
Travel	400	504	104
Contract Services	0	504	504
Education and Training	342	504	162
Other	416	792	376
Capital Outlay	216627	216630	3
TOTAL EXPENDITURES	234441	242085	7644
Excess of Revenues Over (Under) Expenditures	(190740)	(207031)	16291
Other Financing Sources (Uses) Operating Transfers In	0	0	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(190740)	(207031)	16291
FUND EQUITY, APRIL 1	222440		
FUND EQUITY, MARCH 31	\$ 31700		

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

BALANCE SHEET
RECREATION FUND

MARCH 31, 2005

ASSETS

Cash and Deposits	\$ 509
Taxes Receivable	1800
	<hr/>
TOTAL ASSETS	\$ 2309
	<hr/>

FUND EQUITY

Fund Balance - Reserved for Recreation	2309
	<hr/>
TOTAL FUND EQUITY	\$ 2309
	<hr/>

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY
RECREATION FUND
ACTUAL AND BUDGET**

FISCAL YEAR ENDED MARCH 31, 2005

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<u>REVENUES</u>			
<u>Local Sources</u>			
Taxes - Special Assessment	\$ 23700	\$ 23700	\$ 0
TOTAL REVENUES	23700	23700	0
<u>EXPENDITURES</u>			
<u>Recreation and Cultural</u>			
Utilities	180	204	24
Repair and Maintenance	1064	1074	10
Professional Services	23700	23700	0
Supplies	792	792	0
Other	0	400	400
Capital Outlay	10673	10674	1
TOTAL EXPENDITURES	36409	36844	435
Excess of Revenues Over (Under) Expenditures	(12709)	(13144)	435
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In (Out)	12300	12000	300
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(409)	(1144)	735
FUND EQUITY, APRIL 1	2718		
FUND EQUITY, MARCH 31	\$ 2309		

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

BALANCE SHEET
ROAD REPAIR FUND

MARCH 31, 2005

ASSETS

Cash and Deposits	\$ 12188
TOTAL ASSETS	<u>\$ 12188</u>

FUND EQUITY

Fund Balance - Reserved for Road Repair	<u>12188</u>
TOTAL FUND EQUITY	<u>\$ 12188</u>

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY
ROAD REPAIR FUND
ACTUAL AND BUDGET**

FISCAL YEAR ENDED MARCH 31, 2005

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<u>REVENUES</u>			
<u>Local Sources</u>			
Interest	\$383	\$700	-\$317
<u>State Sources</u>			
Metro Act	<u>4055</u>	<u>4055</u>	<u>0</u>
TOTAL REVENUES	4438	4755	-317
<u>EXPENDITURES</u>			
<u>Public Works</u>			
Road Repair	<u>96883</u>	<u>100000</u>	<u>-3117</u>
TOTAL EXPENDITURES	<u>96883</u>	<u>100000</u>	<u>-3117</u>
Excess of Revenues Over (Under) Expenditures	-92445	-95245	2800
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In (Out)	<u>50000</u>	<u>50000</u>	<u>0</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	-42445	-45245	2800
FUND EQUITY, APRIL 1	<u>54633</u>		
FUND EQUITY, MARCH 31	<u><u>\$12188</u></u>		

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

**BALANCE SHEET
SEWER FUND**

MARCH 31, 2005

ASSETS

Cash and Deposits	\$ 75054
Accounts Receivable	7065
Due from Other Funds	5240
Buildings & Equipment	1750829
Accumulated Depreciation	<u>(777806)</u>

TOTAL ASSETS

\$ 1060382

LIABILITIES & FUND EQUITY

LIABILITIES

Accounts Payable	6044
Accrued Benefits	0
Due to Other Funds	499
Deferred Revenue	<u>3765</u>

TOTAL LIABILITIES

10308

FUND EQUITY

Retained Earnings	<u>1050074</u>
-------------------	----------------

TOTAL LIABILITIES AND FUND EQUITY

\$ 1060382

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

**BALANCE SHEET
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN RETAINED EARNINGS
SEWER FUND**

MARCH 31, 2005

<u>OPERATING REVENUES</u>	
Charges for Services	\$ 41357
Other Revenue	0
TOTAL OPERATING REVENUES	41357
<u>OPERATING EXPENSES</u>	
Salaries	9092
Fringe Benefits	696
Contract Services	8033
Supplies	0
Utilities	3679
Repairs & Maintenance	2539
Depreciation	44563
TOTAL OPERATING EXPENSES	68602
Operating Income (Loss)	(27245)
<u>NON-OPERATING INCOME</u>	
Interest Income	917
Interest Expense	(1940)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(1023)
Net Income (Loss)	(28268)
RETAINED EARNINGS, APRIL 1	1078342
RETAINED EARNINGS, MARCH 31	\$ 1050074

The notes to the financial statements are an integral part of this report.

TOWNSHIP OF SAGOLA

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
TRUST AND AGENCY FUNDS**

FISCAL YEAR ENDED MARCH 31, 2005

	<u>Balance 3/31/2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 3/31/2005</u>
<u>ASSETS</u>				
Cash in Bank - Checking	<u>\$341037</u>	<u>\$1496178</u>	<u>\$1670374</u>	<u>\$166841</u>
TOTAL ASSETS	<u>\$341037</u>	<u>\$1496178</u>	<u>\$1670374</u>	<u>\$166841</u>
<u>LIABILITIES</u>				
Due to Other Funds	\$108420	\$155217	\$151177	\$112460
Due to State of Michigan	12177	12073	12177	12073
Due to North Dickinson School	5963	673273	676447	2789
Due to ISD	1040	83312	84204	148
Due to County	174885	532404	706743	546
Due to Star Ambulance	38216	38825	38216	38825
Due to Other	<u>336</u>	<u>1074</u>	<u>1410</u>	<u>0</u>
TOTAL LIABILITIES	<u>\$341037</u>	<u>\$1496178</u>	<u>\$1670374</u>	<u>\$166841</u>

The notes to the financial statements are an integral part of this report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Township of Sagola
Channing, Michigan 48915

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the **Township of Sagola**, as of and for the year ended March 31, 2005, which collectively comprise the **Township of Sagola's** basic financial statements, and have issued our report thereon dated June 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Township of Sagola's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no such matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

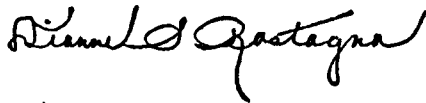
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Township of Sagola's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Compliance and Other Matters (Continued)

However, providing an opinion on compliance with those provisions was not an objective or our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the audit committee, management, the Board, and federal awarding agencies and pass-through entities, and it is not intended to be, and should not be, used by anyone other than these specified parties.



Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

June 22, 2005

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

June 22, 2005

Board of Trustees
Township of Sagola
Channing, Michigan 49815

We have audited the financial statements of the **Township of Sagola** for the year ended March 31, 2005, and have issued our report thereon dated June 22, 2005. Professional standards require that we provide you with the following information related to the audit:

Our Responsibility under Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated February 25, 2005, our responsibility, as described by professional standards, is to plan and perform the audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of the audit, we considered the internal control of the **Township of Sagola**. Such considerations were solely for the purpose of determining the audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the **Township of Sagola's** compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the **Township of Sagola** are described in the Note to the financial statements. There were no new accounting policies adopted and the application of existing policies was not changed during this year. We noted no transactions entered into by the **Township of Sagola** during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

There were no sensitive estimates affecting the financial statements as presented.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the **Township of Sagola** that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the **Township of Sagola's** financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Page Three

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the **Township of Sagola's** auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing the audit.

This information is intended solely for the use of the Board and management of the **Township of Sagola** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.